

Indiana Legislative Services Agency

Fiscal Issue Brief

July 1, 2012

Indiana's Geographically Targeted Development Programs: Enterprise Zones

Introduction

Indiana's Enterprise Zone (EZ) program was established by P.L. 23-1983 [IC 5-28-15] and allows EZs to be located in municipalities or on former military installations. The first EZs established were located in Evansville, Fort Wayne, Michigan City, Richmond, and South Bend in 1984. Currently, there are 24 EZs operating in the state.

The Indiana Economic Development Corporation (IEDC) administers the EZ Program and oversees the operation of the EZs in the state. Until 2005, the state Enterprise Zone Board with the assistance of the Indiana Department of Commerce approved, reviewed, and monitored the EZ program. The IEDC Board has the power to review and approve applications for proposed EZs, renew existing EZs, and monitor EZ operations and incentive use. EZs are designated based on demographic, socioeconomic, and geographic size criteria.

The initial designation period for an EZ is 10 years, with EZs being eligible for two 5-year renewals based on performance reviews by the IEDC Board. The IEDC Board is authorized to designate two new municipal EZs each year until December 31, 2015. Existing EZs also can be continued by one of two methods. EZs which have operated for a full 20-year period may be redesignated by the IEDC Board for a new term with an initial 10-year designation period. Alternatively, an EZ scheduled to expire between December 1, 2008, and December 31, 2014, may be renewed for a 5-year period if the fiscal body of the municipality where the EZ is located adopts a resolution renewing the EZ. The 5-year renewal is applicable to EZs after the initial 10-year designation period or either of the ensuing 5-year designation periods.

Locations

Currently, there are 21 municipal EZs and 3 EZs located on former military installations. Table 1 lists the active Indiana EZs, the year of initial designation, and expiration date. Table 1 also indicates whether the EZ has been redesignated after a 20-year operational period or renewed by resolution of the municipal fiscal body where the EZ is located. EZs that operated in Gary, Indianapolis, Kokomo, and Terre Haute expired and were not redesignated or renewed. Several EZs are due to expire over the next four years. EZs in Bloomington and Marion will expire in 2012; EZs in Bedford, East Chicago, Evansville, Fort Wayne, Lafayette, Michigan City, Richmond, and South Bend will expire in 2013; EZs in Connersville and Hammond will expire in 2014; and the Grissom Aeroplex EZ expires in 2015.

Table 1: Current Indiana Enterprise Zone Locations.

Municipal EZs	Year EZ Established	Year EZ Initially Expired	Year EZ Redesignated/ Renewed	Year Redesignated/ Renewed EZ Expires
Bedford	1993	2013	-	-
Bloomington	1992	2012	-	-
Connersville	1995	2014	-	-
East Chicago*	1989	2008	2009	2013
Elkhart	1999	2018	-	-
Evansville^	1984	2003	2004	2013
Fort Wayne^	1984	2003	2004	2013
Frankfort	2003	2022	-	-
Hammond^	1985	2004	2005	2014
Jeffersonville	2000	2019	-	-
LaPorte	2002	2021	-	-
Lafayette	1993	2013	-	-
Marion	1992	2012	-	-
Michigan City^	1984	2003	2004	2013
Mitchell	2001	2020	-	-
New Albany	2000	2019	-	-
Portage	2001	2020	-	-
Richmond^	1984	2003	2004	2013
Salem	2003	2022	-	-
South Bend^	1984	2003	2004	2013
Vincennes	2002	2021	-	-
Military Installation EZs	Year EZ Established	Year EZ Initially Expired	Year EZ Redesignated/ Renewed	Year Redesignated/ Renewed EZ Expires
Fort Harrison	1997	2017	-	-
Grissom Aeroplex	1996	2015	-	-
River Ridge Dev. Authority*^	1998	2017	-	-

*Renewed for 5 years by resolution of the East Chicago Common Council.

^Redesignated for 10 years by the Indiana Enterprise Zone Board.

*^Located on the site of the former Indiana Army Ammunition Plant at Jeffersonville.

Source: Indiana Economic Development Corporation, June 2012.

EZ Business Tax Incentives

Originally, there were five state business tax incentives specific to EZs: (1) the Employment Expense Credit; (2) the Inventory Tax Credit; (3) the Investment Cost Credit; (4) the Gross Income Tax Exemption; and (5) the Loan Interest Credit. As a result of the tax-restructuring initiative enacted in 2002, the Gross Income Tax was repealed at the end of 2002 and the Inventory Tax was eliminated statewide through the 100% inventory deduction beginning in 2007. Consequently, the Gross Income Tax Exemption and the Inventory Tax Credit are no longer operative as EZ tax incentives. The Employment Expense Credit and the Loan Interest Credit are applicable to three state taxes: the Adjusted Gross Income (AGI) Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. The Investment Cost Credit, however, is applicable to the AGI Tax only. In addition to the three remaining state business tax incentives, a new Property Tax Investment Deduction was enacted and went into effect on July 1, 2005. The existing EZ tax

credits are described below followed by Table 2, which reports the EZ tax credit amounts claimed by taxpayers in tax years 2005 through 2010.

Employment Expense Credit: This is a credit for incremental wages paid by an EZ business to an employee who is an EZ resident. At least 90% of the employee's services must be directly related to the EZ business, and at least 50% of the employee's time must be spent working at the EZ business. The credit is equal to 10% of the additional wages paid to a qualified employee during the year up to a maximum of \$1,500. The credit is nonrefundable, but unused credits may be carried forward for up to 10 years or carried back for up to 3 years. The credit may be applied against individual or corporate AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities.

Investment Cost Credit: This is a state tax credit for equity investment in an EZ business. The credit is equal to a maximum of 30% of the price of the ownership interest purchased by the taxpayer. The allowable credit percentage up to 30% varies depending upon the type of investment, the type of business, and the number of jobs created by the investment. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. This credit may be applied against individual or corporate AGI tax liability.

Loan Interest Credit: This is a state tax credit for interest income earned by a taxpayer from a loan that directly benefits an EZ business, increases EZ property values, or is used to rehabilitate, repair, or improve an EZ residence. The credit is equal to 5% of the loan interest received during the year. The credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. This credit may be applied against the individual or corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax.

Table 2: EZ Tax Credit Amounts Claimed by Individual and Corporate Taxpayers, 2005-2010*.

Tax Year	<u>Employment Expense Credit</u>		<u>Investment Cost Credit</u>		<u>Loan Interest Credit</u>		<u>Total</u>
	Individual	Corporate	Individual	Corporate	Individual	Corporate	
2005	419,088	918,399	151,875	***	71,096	2,291,921	3,852,379
2006	248,860	802,567	22,071	-	12,944	2,441,498	3,527,940
2007	605,188	871,830	171,502	1,358	76,630	2,490,933	4,217,441
2008	502,076	447,421	141,734	-	22,625	967,329	2,081,185
2009	456,333	703,221	84,829	-	54,734	1,818,275	3,117,392
2010	601,483	748,007	107,699	5,136	61,205	1,078,413	2,601,943

***Data not reported separately for individual taxpayers before 2005 or for corporate taxpayers before 2006.

Source: Indiana Department of State Revenue, Tax Return Data 2005-2010.

The EZ Property Tax Investment Deduction is described below followed by Table 3, which reports the deductions claimed in 2011 and 2012 and the tax impact of these deductions.

Property Tax Investment Deduction: This is a property tax deduction for the increased value of an EZ business property due to real and personal property investment by the business. The added valuation may be deducted for up to 10 years. Qualified investment at an EZ location includes the following: (1) purchase of a building, new manufacturing or production equipment; (2) costs associated with the repair, rehabilitation, or modernization of an existing building and related improvements; (3) onsite infrastructure improvements; (4) construction of a new building; and (5) costs associated with retooling existing machinery.

Table 3: EZ Property Tax Investment Deduction Amounts and Tax Impact, 2011-2012.

Location	2010 Pay 2011			2011 Pay 2012		
	Personal Property Deduction	Real Property Deduction	Tax Impact	Personal Property Deduction	Real Property Deduction	Tax Impact
Bedford	2,147,530	1,208,700	107,517	4,011,350	4,020,700	252,053
Bloomington	18,911,207	23,360,700	823,180	44,909,020	35,892,507	1,566,812
Connersville	1,944,628	376,000	95,373	4,888,980	376,000	221,902
East Chicago	31,372,613	-	2,104,632	31,334,964	2,035,410	2,219,764
Elkhart	2,833,860	741,500	123,410	4,185,080	-	160,151
Evansville	13,234,071	3,705,590	462,951	12,860,418	6,494,960	562,256
Fort Wayne	31,080,331	3,726,131	1,094,536	40,452,499	5,438,601	1,440,088
Frankfort	-	-	-	-	-	-
Hammond	45,735,329	799,493	2,347,914	47,650,721	2,037,393	2,043,970
Jeffersonville	-	13,116,570	356,945	-	14,536,080	456,328
LaPorte	-	-	-	-	-	-
Lafayette	-	-	-	112,240	-	2,927
Marion	-	-	-	403,060	396,905	25,369
Michigan City	***	***	***	***	***	***
Mitchell	13,730	470,000	14,906	227,170	470,000	21,472
New Albany	3,618,800	3,250,372	168,054	1,809,846	301,200	53,076
Portage	-	-	-	-	-	-
Richmond	3,684,900	2,465,700	180,754	2,581,160	3,165,300	177,991
Salem	-	-	-	212,400	-	6,570
South Bend	-	-	-	-	2,692,980	135,262
Vincennes	96,050	779,500	38,266	3,061,964	1,678,700	167,374
Fort Harrison	-	-	-	-	-	-
Grissom Aeroplex	629,508	1,653,100	31,164	544,588	1,689,200	30,717
River Ridge Dev. Authority	-	55,363,100	1,417,358	-	68,682,200	2,043,741

***Valid data not available.

Source: County property tax abstracts.

EZ Employee Income Deduction

Besides the business tax incentives, certain individuals working in EZs are entitled to a deduction for income earned in an EZ. Taxpayers who are qualified employees in an EZ may deduct half of the AGI earned as a qualified employee during the year up to a maximum deduction of \$7,500. The maximum deduction would result in a \$255 reduction in state income tax liability for a qualified employee. A qualified employee is an individual who lives in an EZ and is also employed within that EZ. To qualify for the deduction, at least 90% of the employee's services must be directly related to the EZ business, and at least 50% of the employee's time must be spent working at the EZ business. Table 4 reports the deduction amounts claimed in tax years 2005 through 2010 and the tax impact of these deductions.

Table 4: EZ Employee Income Deduction Amount and Tax Impact, 2005-2010.

Tax Year	Deduction Amount	Tax Impact
2005	27,040,677	919,383
2006	24,667,660	838,700
2007	26,156,750	889,330
2008	25,000,866	850,029
2009	24,211,737	823,199
2010	24,046,019	817,565

Source: Indiana Department of State Revenue, Tax Return Data 2005-2010.

**Indiana Legislative Services Agency
Office of Fiscal & Management Analysis
200 West Washington Street, Suite 301
Indianapolis, Indiana 46204-2789
Telephone: (317) 233-0696**

Authors: Jim Landers, Ph.D., Senior Fiscal/Program Analyst; Jessica Harmon, Senior Fiscal/Program Analyst.